B Com – I Semester –I

UNIT -I

BOOK-KEEPING AND ACCOUNTANCY

INTRODUCTION:

In the past, there was no money. Life was very simple, wants were limited and man was self sufficient. But as wants increased, he could not produce all the commodities which he wanted. Therefore, man started exchanging of commodities which he produced with those commodities which he could not produce. In other words, exchange of commodities for commodities came into existence e.g. a farmer exchanged wheat against cloth, which was produced by a weaver, or a pot which was produced by a potter, etc. It came to be known as Barter exchange. As there were a few such deals there was no need to note them in a diary or a book because one could remember them easily. Later on there was evolution of money. Commodities were exchanged for money. People started working for money: Production developed on a large scale as there was development in transport, communication and machinery. Number of businessmen also increased. Number of exchanges (transactions) also increased, and hence it was not possible for a businessman to remember all transactions entered into with different parties. Thus, he started to keep a diary or a notebook to write (record) all transactions in it. He started recording in detail about money received, money paid, cash sales, credit sales, cash purchases, credit purchases, expenses, incomes, etc. These writings of all transactions in the book is called Book-keeping'.

As business developed, businessmen could not find time to write all the transactions by themselves into the books, and therefore, they started appointing persons to record such transactions. Such a person is known as 'Accountant'. Today, transactions have increased on a large scale; therefore, computers are used to keep a proper record.

EVOLUTION OF BOOK-KEEPING

Book-keeping and Accountancy is an ancient art certainly as old as money. In Rome, even before evolution of money, fines and revenues were collected by government in kind or animals for which records were kept. In India also, during the rule of Chandra Gupta Maurya, proper books of accounts were kept and audited (checked). In India, we have an efficient system of book-keeping called '**Desi Nama'**, which is as good as the Western system. The double entry system of book-keeping was originated in Italy. It was developed by Pacioli in 1494.

MEANING OF BOOK-KEEPING:

"**Book'** means **'Book of Accounts'** and **'Keeping'** means **'maintaining'** the books of accounts. Thus, the writing of business transactions in the books of accounts for future use is a simple meaning of book-keeping.

DEFINITIONS OF BOOK-KEEPING

We can define book-keeping as a systematic record of all the business transactions to know the financial position of a business.

According to R. N. Carter:

"Book-keeping is the science and art of correctly recording in the books of accounts, all those business transactions that result in transfer of money's worth."

According to Spicer and Peglar:

"Book-keeping is the systematic recording of the transactions in a manner enabling the financial relationship of a business with other persons to be clearly disclosed and the cumulative effect of the transactions on the financial position of the business itself can be correctly ascertained."

For example

1. Mr Tambi, running a tea stall keeps a diary to record cups of tea supplied on credit to different customers, is also one type of book-keeping.
2. In our house, we keep a diary to write all the transactions taking place daily, like purchase of vegetables, milk, sugar, etc. is also one kind of book-keeping.

OBJECTS OF BOOK-KEEPING :

The main object of book-keeping is to help a businessman. This can be understood from the following:

1. To have a systematic permanent record of business transactions.
2. To know the profit or loss of business during a particular period.
3. To know the capital invested in the business on any particular day.
4. To know the total assets and liabilities of the business on a particular date.
5. To know the total debtors and creditors of the business.
6. To find out the total incomes and total expenditures of the business.
7. To enable a businessman to compare his current year's figures with previous year's figures, to find out his progress and to help in future planning.
8. To find out amount payable for income tax, sales tax etc. and to get information for legal purpose.
9. To get quick information about stock-in-trade, cash in hand, bank balance etc.

IMPORTANCE AND UTILITY OF BOOK-KEEPING:

1. Human memory is limited. A businessman cannot remember ali the transactions for a long time. Book-keeping helps a businessman to record all transactions systematically.
2. Book-keeping is useful in finding out the financial position of the business and to find out profit or loss of the business.
3. To compare the records with different periods and to plan for future and to keep control over expenditures.
4. Book-keeping is a systematic record and therefore useful as a proof in the court of law in case of dispute.
5. Book-keeping is useful to calculate sales tax and income tax payable.
6. Book-keeping is useful in valuation of goodwill of the business.
7. Book-keeping is useful to management, investor, money lender, creditors, labour union, government etc., to know the position of the business.
8. With the help of book-keeping, misappropriation of goods and cash can be stopped.

BOOK-KEEPING IS AN ART OR A SCIENCE :

Book-keeping is a science as well as an art. In book-keeping we have some rules and principles as we have in science. Book-keeping is a systematic record and therefore, it is called a science.

An art means an action of doing a thing with some skill and experience. Bookkeeping is, therefore, an art. An accountant can represent any typical transaction in an easy way with his art. In book-keeping, some transactions can be represented in alternate ways. Now it depends upon the skill and experience of an accountant which way he wants to follow.

Transaction:

A book-keeper records day-to-day business transactions in the books. His work is more or less of a routine type and clerical in nature. An accountant's work goes beyond that of a book-keeper. He is a specialist in this field and his job is to provide vital information to management in its pursuance of the profit motive and future program.

The financial position of active business is always changing. There was involves many business transactions in a day. A business transaction may be defined as 'an economic activity of the business that changes its financial position'. Whenever any business transaction takes place, there is a change in the values of some of the assets, liabilities or capital.

Accountants classify these business transactions into two types-viz. Internal and External transaction. Internal transaction are those economic events that take place entirely within one firm, and external transaction are those involving economic events between two or more independent firms. Accountant use the term transaction to refer to all internal and external transactions, which constitute the input of the accounting information system. Recording this transaction is an important function of accounting.

Features of a Transaction:

The following are the main features of a transaction:

1. It involves an economic activity i.e., Purchases of material for use of business. Social activities are not treated as transactions i.e. You invite your friend to a dinner, this is not considered as a transaction because it is a social engagement to which no money value is attached.

2. External transaction involves exchange or transfer of values in money or money's worth between two or persons or firms. An internal transaction does not involve any exchange of values and it takes place entirely within one firm, for example loss caused by depreciation of fixed assets.
3. It brings about a change in the financial position of the entity. The change may be quantitative or qualitative. Purchase or sales of goods or loss due to fire are examples of quantitative change. Cash withdrawn or deposited into bank are examples of qualitative change.
4. The change must be expressed in financial terms. Purchase of material for Rs. 1000 is a transaction because the value of material can be measured in term of money. When an efficient employee of a business dies, the loss to the business is immense no doubt, but this loss cannot be measured or expressed in terms of money. Hence it is not a transaction of the business.

Accounting Cycle:

The different stages in the process of accounting are the following:

1. Obtaining source documents.
2. Recording transaction in the Journal or subsidiary books as and when they take place.
3. Posting journal entries to the appropriate ledger accounts.
4. Obtaining balances of accounts.
5. Preparing the Trial Balance to prove arithmetical accuracy.
6. Making adjusting entries.
7. Making close entries.
8. Preparing financial statements i.e. Profit and Loss Account Balance Sheet to know the profit or loss and financial position of the business at the end of the period.

"The Double Entry Accounting System" is the only scientific system for recording the business transactions. According to this system, transactions are recorded by suitable account headings are analyzed in terms of 'debit and credit', by this process total of debit becomes equal to total of credit. In other words, 'total Assets are always equal to Capital and Liabilities'. Accounts are classified in the first instance as Personal and Impersonal, then impersonal accounts are further classified into ‘Real Account and Nominal Account’. In the accounting cycle; transactions are first Journalized, then posted to suitable Ledger Accounts and all the accounts are balanced at the end of the year. Generally, balances of the Nominal Accounts are transferred to Trading and Profit and Loss Account for determination of profit or loss and balances of Personal and Real Accounts are transferred to Balance sheet. However, there are a few exceptions to this rule. The Trial Balance is drawn by taking the balances of all ledger accounts periodically or at the end of the accounting period to test the arithmetical accuracy”.

Account:

An account is a section of the ledger in which all the transactions relating to the same activity that have taken place during a given period are summarized and accumulated. Individual accounts are opened for every debtor and creditor and for each head of expenses, revenue, assets and liability.

An account has two sides-when an amount is entered on the left-hand side of an account, it is a debit and the account is said to be debited, when an amount is entered on the right-hand side, it is credit and the account is said to be credited.

Classification of Accounts:

Basically accounts are classified in the first instance as personal and impersonal; then impersonal accounts are further classified into real and normal.

PERSONAL ACCOUNTS AND IMPERSONAL ACCOUNTS

Personal Accounts are those accounts which pertain to any person. Impersonal accounts are accounts other than the personal accounts. These impersonal accounts may relate to property or assets are known as Real Accounts or Property Accounts. The accounts that relate to expenses or income are known as Nominal Accounts or Fictitious Accounts. This can be put in the form of a chart as under:

I. PERSONAL ACCOUNTS:

Personal Accounts include the accounts of persons or parties with whom the business deals. These accounts can be classified into three categories:

1) Natural Personal Accounts: The term 'natural persons' means persons who are creation of God. E.g. Amar's A/c, Akbar's Ac, Anthony's A/c etc.

2) Artificial Personal Accounts : These accounts include accounts of corporate Gi.e. registered) bodies or institutions, e.g., Companies, cooperatives, clubs, accounts of government, insurance companies, charitable trusts, partnership firms, legal authorities (like municipality, gram panchayat), banks, schools colleges, etc.

3) Representative Personal Accounts: These accounts represent a certain person or party. E.g. Rent is unpaid ror the last month of December Rs.500. means it is outstanding rent which 1s an expense payable to a person (landlord and hence Outstanding Rent Account becomes a Personal Account. Similarly outstanding salary, outstanding wages etc. are Personal Accounts. Similarly, any expenses paid in advance are called prepaid. It is a personal account as it is paid to some party. E.g. Prepaid rent, prepaid insurance etc. Besides these, Capital Account and Drawing Account are also Personal Accounts.

From Personal Accounts We can and out whether amount is payable or receivable. In other words, whether party is a debtor or creditor

II. IMPERSONAL ACCOUNTS:

All accounts other than Personal Accounts are impersonal Accounts. These are further divided into (A) Real Account, (B) Nominal Account.

A) Real Accounts or Property Accounts: Real Accounts represent assets which belong to a business.

1. Tangible Real Accounts: Tangible means the things which we can touch. see, measure and fecl. E.g. Cash Account, Building Account, Land Account. Machinery Account, Furniture Account, Stock Account etc.

2. Intangible Real Accounts: These accounts represent such things which cannot be seen or touched, but can be measured in money terms. E.g. Goodwill, Patent Rights, Copyright, Trademark Right, Design Right etc.

B- Nominal Accounts or Fictitious Accounts: These accounts are opened in the books to explain the nature of the transactions. They do not really exist and thus they are fictitious. In a business, salary is paid to a clerk, rent is paid to a landlord, and commission is paid to an agent. For all these transactions cash goes out of the business and cash is real, but salary, rent. commission etc. do not exist. The accounts of these items are opened simply to explain how cash has been spent. Nominal Accounts include accounts of all expenses, losses, incomes and gains. E.g. Rent, Rates, Insurance Premium paid, Bank charges, Dividend. Interest, Electricity and Power, Loss by fire, Loss by theft, Profit on sale of investment etc.

Illustration 1: Classify the following accounts

Name of Accounts	**Solution**
1. Drawing A/c	Personal Alc
2. New India Insurance Co.	Personal A/c.
3. Motor Car A/c	Real A/c
4. Carriage on Purchases	Nominal A/c
5. Royalty paid	Nominal A/c
6. Loss on sale of furniture	Nominal A/c
7. Office Building Rent	Nominal A/c
8. Office Building Alc	Real A/c
9. Stationery A/c	Nominal Alc
10. Stock of Stationery A/c	Real A/c
11. Building Repair Alc	Nominal A/c
12. Outstanding Building Rent A/c	Personal A/c
13. Loose Tools Alc	Real A/c
14. Postage & Telegram	Nominal Alc
15. Telephone Deposit	Real Alc
16. Mahanagar Telephone Nigam Ltd. Alc	Personal Alc

17. Livestock A/c Real A/c

Fundamental accounting principles give rise to the following broad classification of transactions and accounts. Various categories of accounts are explained as follow:

1. Capital: It refers to the amounts invested in an enterprise by its owner. This account is personal account of the owner.
2. Liabilities: These are financial obligation of an individual or enterprise other than owner's namely long-term loans, creditors, outstanding expenses etc. These are classified as personal accounts and relate to individuals, institutions, etc.
3. Income: These represent those accounts which show the amounts earned by the firm. These are in the nature of nominal accounts. These accounts will be closed at the end of every year by transferring the balance to Profit and Loss Account.
4. Expenses: These represent those accounts which show the amount spent or even lost in carrying on business operations. These are in the nature of Nominal Accounts. These Accounts will be closed at the end of every year by transferring to Profit and Loss Account.
5. Assets: These refer to those resources which are owned by the person or business enterprise. Such resources are acquired by the business for the purpose of carrying the business. These are two types:
    1. Tangible Assets i.e. Plant, Machinery, Land, Building, etc.
    2. Intangible Assets i.e. Goodwill, Copyrights, Trademarks etc.

Rules of Accounting

Personal Account

Debit the receiver and Credit the Giver

Real Account

Debit what comes in ad credit what goes out

Nominal Account

Debit the Expenses and Losses and Credit the income or Gains

JOURNAL

As per the principles of double entry system of book-keeping, every transaction has two-fold effect-means two accounts are affected. One account receives the benefit while the other account gives the benefit. One account is debited while the other is credited. All the transactions are first recorded in the book known as the book of prime entry. Books of prime entry are also known as books of original entry. These are the journal and subsidiary books. Journal means one book while subsidiary books show a set of books. In small business only one book is maintained i.e. journal, because the number of transactions are few. n modern times, in a big business house, journal is divided into various books known as subsidiary books.

MEANING: Journal is the book of prime entry. The word Journal' is derived from the French word Jour' which means a day. Journal therefore, means a daily record. Transactions are recorded daily in the order of their taking place i.e. in a chronological order. It is known as book of original entry because each transaction is first recorded in the journal.

The book of prime entry is called journal.

Journalizing : Recording of business transactions in the journal is called Journalizing.

Journal entry : When a transaction is recorded in the journal by debiting one account and crediting another account, it is called a journal entry. After the entry, on the next line, explanation of that entry is written, which is called narration? A journal entry without a proper narration is incomplete.

Ruling of Journal (i.e. Form or Proforma of Journal)

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)

Explanation of columns of journal:

1) Date column : The first column from the left is the date column. The date on which a transaction takes place is recorded in the date column. It should be in the order of the year, month and day, i.e. 1993, April 29.

2) Particulars column : In this column, the names of the accounts to be debited and credited are written. The account to be debited is written on the first line and the account to be.credited is written on the second line. The abbreviation 'Dr. is written close to L.F.

column to indicate the account debited, while the name of credit account starts with "To" after leaving some space on the line, e.g.

Mohan's Alc Dr.

To Goods A/c

This means Mohan's Account is debited and Goods Accounts is credited. Below the entry, narration is written in bracket which starts with the word Being or For

3) L.F.: The full form of L.F. is Ledger Folio. Folio means page number and thus ledger folio means page number of ledger. In this column, page numbers of ledger books are entered on which both the accounts appear. Usually,such page numbers are entered in red ink in order to distinguish it from the amounts which are entered in the amount columns. With the help of L.F. it is easy to refer the accounts in the ledger.

4) Debit Amount : In this column, amount of debit account is entered. It will be in the same line of the account debited.

5) Credit Amount: In this column, amount of credit account is entered. It will be in the same line of the account credited.

Besides, a line is drawn in the particulars column between two journal entries to keep two entries separate. At the end of the page the amounts of debit and credit columns are totalled and shown on the next page. The total of debit column is always equal to the total of credit column.

Illustration 1: State the accounts to be debited and credited in each of the Following transactions with reasons. Also journalize the same in the journal of M/s. Omkar for the month of January 2020.

1 Started business with cash Rs.5,000.

5 Goods purchased for cash Rs.2,000.

7 Goods sold for Rs.2,500.

12 Goods purchased from Krishna Rs.6,000.

15 Sold goods to Ram worth Rs.6,500.

18 Purchased furniture worth Rs.1,000.

31 Received cash from Ram Rs.5,000.

31 Paid cash Rs.3,000 to Krishna.

Solution: (A) Debit and Credit of accounts with reasons

Jan. 1 - Cash A/c debited- comes in

Capital A/c Omkar's Capital A/c credited giver

Jan 5 Goods A/c debited comes in

Cash A/c credited goes out.

Jan 7 Cash A/c debited comes in

Goods Ac credited goes out.

Jan 12 Goods A/c - debited - comes in

Krishna's A/c credited giver

Jan 15 Ram's Alc debited receiver

Goods A/c credited goes out.

18 Furniture A/c debited - comes in

Cash A/c credited goes out

31 Cash A/c debited comes in

Ram's A/c credited giver

31 Krishna's Alc debited receiver

Cash A/c credited goes out

Journal entries in the Books of

M/s Omkar

Date	**Particulars**	**L.F.**	**Debit (Rs.)**	**Credit (Rs.)**
2020				
Jan. 1	Cash A/c Dr.		5,000	
	To Capital A/c			5,000
	(Being Business started with cash)			
Jan. 5	Goods A/c Dr.		2,000	
	To Cash Alc			2,000
	(Being good purchased for cash)			
Jan. 7	Cash A/c Dr.		2,500	
	To Goods A/c			2,500

	(Being goods sold for cash)			
Jan.12	Goods A/c Dr. To Krishna's Alc (Being goods purchased from Krishna on credit)		6,000	6,000
Jan.15	Ram's A/c Dr. To Goods A/c (Being Goods sold to Ram on credit)		6,500	6,500
Jan.18	Furniture Alc Dr. To Cash Alc (Being furniture purchased)		1,000	1,000
Jan.31	Cash A/c Dr. To Ram's A/c (Being cash received from Ram)		5,000	5,000
Jan.31	Krishna's Alc Dr. To Cash A/c. (Being cash paid to Krishna)		3,000	3,000

Illustration 2: Journalize the following transactions in the Journal of Smt. Bhanumati Kantilal Mehta in the month of February 2020

5 Bank account is opened by depositing Rs.10,000 with Bank of India.

7 Smt. Bhanumati withdraw Rs. 1,000 cash for personal use.

8 Smt. Bhanumati brought her personal car into the business for Rs.80,000.

9 Smt. Bhanumati's house rent paid Rs.500 from office cash.

10 Goods purchased from Leela Ltd. of Rs.2,000 and amount paid by cheque .

15 Goods worth Rs.2,000 distributed as free samples among valued customers.

18 Received commission from Mr. Dalal Rs.200 for goods sold on his behalf.

19 Rs.200 paid in cash to M/s Datt printers for printing of letterheads.

Solution:

Journal of Smt. Bhanumati Kantilal Mehta

Date	Particulars	L.F.	Debit (Rs.)	Credit .(Rs.)
Feb. 5	Bank of India's Alc Dr. To Cash Alc (Being bank Acount opened with Bank of India)		10,000	10,000
7	Drawing Alc Dr. To Cash Alc (Being cash withdrawn for personal use)		1,000	1,000
8	Motor Car Alc Dr. To Capital A/c (Being personal motor car introduced in the business)		80,000	80,000
9	Drawing A/c Dr. To Cash Alc (Being house rent paid out of office cash)		500	500
10	Goods A/c Purchase Alc Dr. To Bank Alc (Being cheque paid to Leela Ltd. For goods purchased)		2,000	2,000
15	Advertisement A/c Dr. To Goods A/c / Purchase Alc / Goods distributed as sample Alc (Being goods distributed as free samples)		2,000	2,000
18	Cash A/c Dr. To Commission A/c (Being commission received from Mr. Dalal for goods sold on his behalf)		200	200
19	Printing & Stationary Alc Dr. To Cash A/c		200	200

	(Being printing bill paid to M/s Datt printers for printing of letterheads)			

Procedure of passing journal entry

1. Read the given transaction with care and if not clear. Then read it second time.
2. See whether it is a cash transaction or a credit transaction.
3. Find out the two accounts affected. In case of cash transaction one account will be Cash Account while in case of credit transaction, one account will be Party's Account.
4. Apply proper accounting rules of debit and credit after deciding the type of account.
5. Now the actual work of journalising starts. Write the date of the transaction in the column of date. Write out the year at the beginning of the page in the date column rather than repeating it every time.
6. The account to be debited is written immediately after the date column. Then 'Dr. is written in the same line but close to L.F. column.
7. The amount of debit account is written in the debit column in the same line of Dr.
8. The account to be credited is written in the line below the debit accounts. The name of credit account starts with To after leaVing some space from the date column.
9. The amount of credit account is written in the column of credit and ln the same line in which the name of the account is written.
10. The column of L.F. (Ledger Folio) is filled at the time of posting the journal entries into the ledger.
11. Thus amount of credit account is found in the next line.
12. 'A/c' is used for Account.
13. A line is drawn between two entries in the particular column. This is to indicate that the entries are separate.